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DEPT FOR S, D, P, E, G, OES, EAP  
STATE FOR ADMINISTRATOR FORE  
STATE PASS TO PEACE CORPS DIRECTOR TSCHETTER, OPIC  
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SUBJECT: ADVANCING U.S. RELATIONS WITH INDONESIA

¶1. (SBU) Summary: Now is the time to lock in place the positive directions that U.S.-Indonesian relations have taken since 2001 and to make more progress. Seven years ago, Indonesia was highly vulnerable to terrorist threats, but Indonesian resolve and U.S. assistance have reduced these risks greatly. Indonesia then suffered from economic stagnation and political uncertainty, but now it enjoys democracy, stability, and an improving economy. Positive policy impulses from the war on terror and the campaign for freedom have created new space for the bilateral relationship, a space where opportunities outweigh risks. This message proposes action on several standard bilateral agreements and a few program initiatives to provide greater ballast for a healthy relationship with the world's fourth most populous nation. End Summary.

Security cooperation provides a basis to expand relationship

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¶2. (SBU) At the core of our growing relationship with Indonesia is expanded security cooperation with both the police and the military. Here, in the world's largest Muslim-majority country, public rejection of terrorist methods, better intelligence, U.S. and Australian police training, and the determination of President Yudhoyono and his senior officials have combined to roll back the threat of terrorist attacks. Although terrorist networks have not been eliminated, they have been degraded and contained, thanks in large part to the police.

13. (SBU) The conflict in Aceh, a devoutly Muslim region, has been resolved by an agreement that provided for regional autonomy and an election in which a former rebel became governor. Tensions elsewhere, such as in Papua, Ambon, and Central Sulawesi, have been reduced by democratic politics, increased regional authority through decentralization, and improved policing. The Government of Indonesia (GOI) is restructuring the military: first the police were constituted as a separate force, then the military voluntarily withdrew itself from politics, and now military owned businesses are being prepared for divestiture. The reformed military and reformed police actively cooperate with the U.S. military and are a significant contributor to UN peacekeeping operations, such as in Lebanon and Darfur.

14. (SBU) Nevertheless, more trust is needed to overcome the consequences of the previous USG decision to cease military cooperation with Indonesia due to past human rights abuses. Our first step was the 2005 decision to resume military sales and military training after a 13-year embargo. Accountability for past human rights abuses is an ongoing process, and the recent Commission on Truth and Friendship report is a positive marker. Three program challenges are ongoing. First, we have been asked for a modest level of assistance to the Indonesian Ministry of Defense to support efforts to professionalize their forces via a National Defense University for both military and civilian students. Second, we need to resolve the contradiction between the Leahy Amendment, s ban on training members of military units

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that had previously committed human rights violations--even of completely innocent troops--and the policy goal of achieving reform by training such troops. Third, we should go forward with our assistance that boosts the military, s efforts to divest itself of commercial operations, which benefit few and can lead to abuses. This divestiture would also give the Finance Ministry the basis it wants to seek full funding for the Ministry of Defense from the legislature. In Indonesia, expanding security cooperation and promoting good governance are mutually reinforcing.

15. (SBU) The growing bilateral activities on security questions need more form. In June, the Indonesian government proposed a text for a Defense Cooperation Agreement, including provisions for periodic consultations. Indonesia has such an agreement with several other countries, including China, India and the Philippines. Embassy Jakarta recommended that the USG respond affirmatively to this proposal, with the condition that the text should be drafted in a non-binding way that avoids the need for parliamentary action in either capital. Such an agreement would help lock in the progress achieved in the past few years and lay down a roadmap for future collaboration. ACTION REQUEST: Mission now seeks authorization to inform the GOI of USG readiness to participate in talks aiming at concluding a Defense Cooperation Agreement.

Improving governance key to democratic development  
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16. (SBU) In the last decade, Indonesia has moved its political system from authoritarian to free and democratic, with a direct benefit to 240 million people. Freedom House ranks Indonesia as the only "free" country in Southeast Asia. President Yudhoyono reached an agreement with Aceh rebels to resolve the thirty year conflict in Aceh, and new provisions for regional autonomy defused conflict in Papua. Decentralization has moved government closer to its citizens, with frequent elections unseating underperforming incumbents. However, the decentralization of administration of such services as education and health care has created challenges for less developed communities lacking educated officials and strong institutions. In some areas, improvements in governance have been hard to achieve. And decentralization has often made it harder for foreign investors to gain

necessary approvals.

¶7. (SBU) U.S. programs aimed at good governance have been making a substantial difference, but risks abound. Indonesians welcome USG programs aimed at ending the culture of corruption here. Police training is increasing respect for human rights and is fighting corruption. DOJ programs assist prosecutors, and bilateral judicial assistance is improving even without a specific agreement. And MCC's large program to support Indonesia's anti-corruption reform is making a real difference. ACTION REQUEST: If Indonesia passes its policy indicators this year, it should be given an MCC Compact with funding commensurate with its importance to U.S. policy interests. In any case, gap funding is needed to

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continue these valued anti-corruption programs between the end of the threshold program and the beginning of Compact implementation.

Economic cooperation lagging  
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¶8. (SBU) In part because economic reform lags in Indonesia, U.S. business faces growing competition. For example, a recent Chinese trade delegation from Guangzhou to Indonesia included almost 700 participants; the upcoming U.S.-ASEAN Business Council mission to Indonesia will have only 48 participants. The growing number of Indonesia's free trade agreements with other countries and regional blocks signal Indonesia's greater integration within Asia at the expense of U.S. business. Indonesia prefers these less ambitious deals to the rigorous economic agreements we seek. Negotiations to renew the OPIC agreement and to conclude a Bilateral Investment Treaty have stalled, and we are finding it difficult even to get Indonesia to engage seriously in our Trade and Investment Framework Agreement (TIFA) process. Resource nationalism is on the rise, and progress on improving the investment climate is slow. In the meantime, we are looking for specific issues where we can advance our trade and investment interests. The Embassy is working with EXIM to secure passage of legislation to implement the Cape Town agreement that would permit EXIM financing of a sale of 170 Boeing 737s to Indonesia's Lion Air. We are also working to encourage Indonesia to overturn the \$100 million libel judgment against Time magazine, an unfortunate example of Indonesia's uncertain rule of law. Despite these problems, we need to renew work on our economic relations. ACTION REQUEST: Mission requests authorization to reopen negotiations on an updated OPIC agreement.

Indonesia as an environmental "super power"  
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¶9. (SBU) Indonesia needs the United States as a partner on environmental issues, and vice versa. Indonesia is number one in marine diversity, number two in land biological diversity, but number three in greenhouse gas emissions. At last year's climate change conference in Bali and in the Major Economies Meetings, the United States and Indonesia worked constructively together. We are working on a \$20 million Tropical Forest Conservation Act agreement, a Clean Energy Fund proposal for the World Bank, and the Coral Triangle Initiative announced last year by President Yudhoyono.

¶10. (U) To launch new collaboration on the marine environment, the Embassy is working with NOAA and USAID to secure a positive response to Indonesia's invitation for the Okeanos Explorer, NOAA's most advanced ocean research and exploration ship, to visit Indonesia next year on its maiden voyage. Such a visit linked to the May 11-15, 2009 World Oceans Conference and Coral Triangle Initiative Summit in Manado would promote science, increase Indonesian capacity to study and manage its marine resources, and build an active

environmental partnership as part of the bilateral relationship. ACTION REQUEST: Mission seeks Department,s support for Embassy,s ongoing efforts to seize this opportunity.

Health, science, and technology areas for engagement  
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¶11. (SBU) Indonesia has underperformed on health issues, and the current Health Minister is a difficult partner. However, Indonesia, with nearly half of Southeast Asia,s population, and half of all human cases of avian influenza, will remain the world,s largest petri dish for many infectious and tropical diseases. The health system remains poor in many areas, evidenced by many wealthy Indonesians flying to Singapore for treatment. To secure the USG,s long-term public health interests, we are pursuing four tracks. First, Australian-brokered consultations to secure WHO approval for a new global sample-sharing mechanism are going forward, with November as the target date for agreement. This agreement would be the basis for Indonesia to resume sharing virus samples. Second, before the end of the year, we hope to secure Indonesian signature of the already approved Biosecurity Engagement Program agreement. Third, public debates over renewing the agreement for NAMRU (the US Navy,s medical research unit here) have quieted down, and we hope to restart negotiations by the end of the year. Finally, looking toward to a day when there is a change in leadership in the Health ministry, we should develop long-term professional relations through training programs, particularly with the CDC and NIH.

¶12. (SBU) Indonesia has underperformed in science and technology, with only 7,000 PhDs in the country. Success in the 21st century for any economy requires better human capacity. The prior bilateral science and technology agreement expired in 2002. It is time to explore interest in a new agreement. ACTION REQUEST: The USG should propose concluding an umbrella science and technology agreement. The text should include provisions for joint research projects, institutional collaboration, and personnel exchanges with an emphasis on environmental science, biomedical science, and perhaps other areas.

Perceptions of U.S. in Indonesia improving  
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¶13. (SBU) Public diplomacy is critical for building the bilateral relationship. In February 2008, the BBC reported that U.S. "favorability" rating in Indonesia had risen from 21 percent to 32 percent in the previous twelve months, which meant a positive opinion shift by 27 million Indonesians. Public diplomacy programs have sped forward that progress, and we should be building upon these successful initiatives. Education should be central to our strategy here. We are working to conclude an updated Fulbright agreement within the next two months, which would provide the basis to expand higher education cooperation. In the same timeframe we hope to obtain agreements for the Ministry of Education to use its

scholarship funds to finance Indonesian Fulbright scholars to study in the U.S. and for the use of \$3 million of old PL 480 funds to fund agricultural Fulbright scholarships.

¶14. (SBU) Finally, the Peace Corps. In 2006 and in 2007 the Peace Corps sent teams to Indonesia to consider opening a program. Peace Corps decided to open a new program here, but funding has delayed this opening. Frankly, it is time to add a sense of priority and, indeed, urgency. Volunteers here will be safe and welcome, and their impact will be enduring. ACTION REQUEST: Embassy Jakarta requests that a team be sent to open negotiations for a new Peace Corps agreement to

replace the exchange of letters dating from 1965 and to develop concrete plans on how to re-establish a Peace Corps program.

#### A Way Forward

¶15. (SBU) We recommend formalizing our developing bilateral partnership through a Defense Cooperation Agreement, an umbrella science and technology agreement, and a renewed Fulbright agreement that provides the basis for additional higher education cooperation. We need to continue the good governance programs now funded by the MCC and to reopen negotiations aimed at renewal of OPIC operations here. The Peace Corps should implement its internal decision to open a program. Ten years after its transition to democracy, Indonesia is at a critical point in its development and we have strategic opportunities to support this process. Security cooperation is one element, but we also have opportunities to seek closer cooperation on education, environment, health, science and technology, and the economy. Success in these areas would help convince Indonesians that democracy delivers the goods and international partners are valuable. The trajectory of reform is positive. The challenge over the next 10 to 20 years is to institutionalize such successes through further cooperation.

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